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May 5, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE

SAFETEA-LU Technical Corrections Act of 2008

On April 30, 2008, the House passed H.R. 1195 (Oberstar, D-MN), the SAFETEA-LU Technical Corrections Act of 2008, clearing the bill for the President, who is expected to sign it. Earlier in April, the Senate passed the bill, which makes technical corrections and other changes to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which reauthorized surface transportation programs in 2005. H.R. 1195 includes language requiring the Federal Transit Administration (FTA) to consider state and local funding previously expended on the Metro Gold Line and Exposition Line when determining the Federal share of costs. This means that the Federal match rate would be higher if Federal funding is awarded for these projects in the future.

In addition to its technical corrections to SAFETEA-LU, other provisions in the bill included a $115 million rescission in unobligated contract authority to keep spending below the overall SAFETEA-LU spending limit, a provision to allow all states with large amounts of Federal land to use a sliding scale when determining their Federal share of project costs, a reallocation of up to 0.205 percent of total funding under several transportation programs to the Future Strategic Highway Research Program, and a requirement that the Department of Justice investigate a controversial earmark for a Florida highway project included in the final enacted version of SAFETEA-LU.

Pursuit of County Position on Legislation

H.R. 5818 (Waters), "The Neighborhood Stabilization Act of 2008", which was introduced on April 16, 2008, would establish a new $15 billion program for the purchase and rehabilitation of owner-vacated, foreclosed homes with the goal of stabilizing and occupying them as soon as possible. Fifty percent of the total funding would be used for loans, with the remainder used for grants. The bill was approved by the House Committee on Financial Services on a vote of 38 to 26 on April 23, 2008. H.R. 5818 is expected to be on the House floor on May 7, 2008.

The general purpose of H.R. 5818 is to: rehabilitate owner-vacated, foreclosed homes with the goal of stabilizing them, either through resale or rental to qualified families; distribute loans and grants to areas with the highest foreclosure levels; provide incentives to use the funds to stabilize as many properties as possible; and provide housing for low- and moderate-income families, especially those that have lost homes to foreclosure.

Under H.R. 5818, each state's loan and grant authority would be based on the state's percentage of nationwide foreclosures over the last four calendar quarters, adjusted to account for the state's relative median home price. States could allocate funds to government entities (e.g., housing authorities) and nonprofits for the purchase, rehabilitation, and resale of homeownership housing and the purchase, rehabilitation, and operation of rental housing. A state would be required to pass through funds to a county within its bounds if that county is one of the 50 most populous in the nation or a city within its bounds if that city is one of the 100 most populous using a formula based on the share of total state foreclosures and relative home prices.

Loans would be non-recourse, zero-interest loans to finance acquisition and rehabilitation costs. The Federal government would be paid back from resale or, in the case of rental properties, refinance proceeds. Loans for homeownership properties must be repaid within two years. For rental properties, the maximum loan term is five years. In addition, the Federal government would receive 20 percent of any appreciation a property owner realizes at resale.

Grant funds could be used toward property taxes and insurance during the pre-occupancy phase; operating costs such as property management fees, property taxes, and insurance during the period a property is rented; property acquisition costs; and state and grantee administrative costs. Grants could also cover closing costs.

Homes purchased for resale must be sold to families having incomes that do not exceed 140 percent of area median income (AMI). Properties purchased for rental must serve families having incomes at or below AMI. However, states would be required to give preference to activities serving the lowest income families for the longest period and homeowners whose mortgages have been foreclosed. The bill would also give states the explicit authority to provide preferences for otherwise income-eligible veterans, teachers, workforce, and homeless persons.

The Community Development Commission (CDC) has reviewed H.R. 5818 and indicates that the general provisions are favorable to the County but that it could be improved by providing a direct funding allocation to qualified urban counties instead of a pass-through from states, provide more flexibility over the use of loan and grant funding, and allow for sufficient administrative costs.

The CDC indicates that HUD already allocates funds through the Community Development Block Grant (CDBG), HOME Investment Partnerships Program, and Housing Opportunities for Persons With AIDS directly to entitlement jurisdictions and recommends the same be allowed under H.R. 5818. The CDC also recommends that more flexibility be allowed for the loans and grants, such as: 1) allowing the loan funds to be used as collateral or a loan loss reserve to leverage additional acquisition and/or rehabilitation capital funds for foreclosed properties; 2) increasing the loan term limit; 3) allowing a portion of the grant or loan funds to be used for other things, including securing and maintaining vacant properties, code enforcement, and down payment assistance or loan funding for new homebuyers; 4) permitting grant and loan funding to be used whether or not a foreclosed property is owned by the County or a nonprofit; 5) providing preferences in eligibility for police and firefighters; and 6) adjusting the income target requirements to allow more people to qualify in Los Angeles County due to the high housing costs.

In addition, the CDC indicates that eight percent for administration costs and two percent to states for planning costs is not adequate to administer a loan and grant program, especially since it is a new initiative which will require recipients to change or develop new procedures to increase staff in order to programmatically and financially monitor the funded activities. The CDC recommends that the bill be amended to allow for an overall amount of 20 percent of the grants and loans to include both administration and planning, similar to what is allowed under the current CDBG regulations.

The CDC and this office support H.R. 5818. Support of H.R. 5818 is consistent with policies to support proposals which would provide: 1) increased flexibility over the use of Federal community development and housing funds to local officials; 2) local governments with greater decision-making authority over the use of Federal funds; 3) direct grants or mandatory pass-through allocations to large urban counties; and 4) local officials with greater flexibility over the administration and use of housing funds. Therefore, **the County's Washington D.C. advocates will support H.R. 5818 or similar legislation** which would establish a loan and grant program to purchase and rehabilitate foreclosed homes, and which would provide direct funding to urban counties, such as the County, increased flexibility over the use of program funds, and provide sufficient funding to local jurisdictions to administer the funds.